

CHAPTER 4 SHIPPING AND COMMERCE

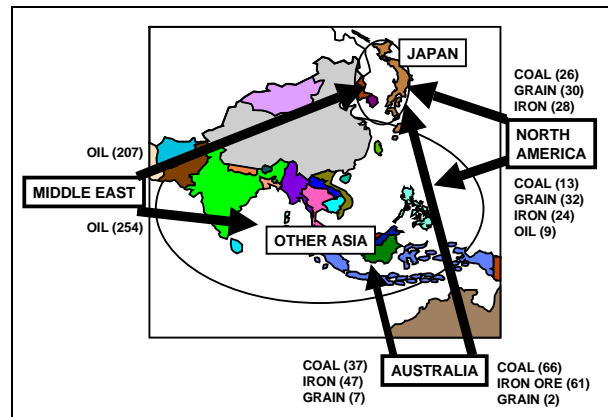
The free passage of shipping along Asia-Pacific sea-lanes is a fundamental factor contributing to Asia's recent economic dynamism. Both sides of the Pacific depend on a secure flow of commerce that adheres to international norms. The national security policies of countries participating in the global economy depend on an open, impartial trading system that predictably provides access to commodities from far-flung locations. The mercantilist approach of former centuries does not apply when global commerce is made secure. Consequently, the security of Asia's shipping lanes and supporting infrastructure directly affects worldwide economic security. As such, the benign neglect of both maritime piracy and territorial posturing in the South China Sea makes commerce vulnerable and adds to the cost of security for the region.

Commodity Flows

The overall pattern of shipping consists of large tonnages of low-value resources shipped through Southeast Asia to industrial economies (Japan and the Four Newly Industrialized Economies) in North Asia, who then add value via manufacturing processes. These industrial economies then ship out relatively smaller tonnages of high-value goods, much of which passes through Southeast Asian or trans-Pacific routes.

Cargo flowing into Asia typically includes containerized goods, dry bulk goods (grain, coal, and iron ore from North America and Australia), as well as oil from the Middle East. (See Figure 4-A.)¹ Generally, crude oil is the biggest single cargo in terms of volume through Southeast Asia, while finished consumer goods are the dominating cargo in terms of value.

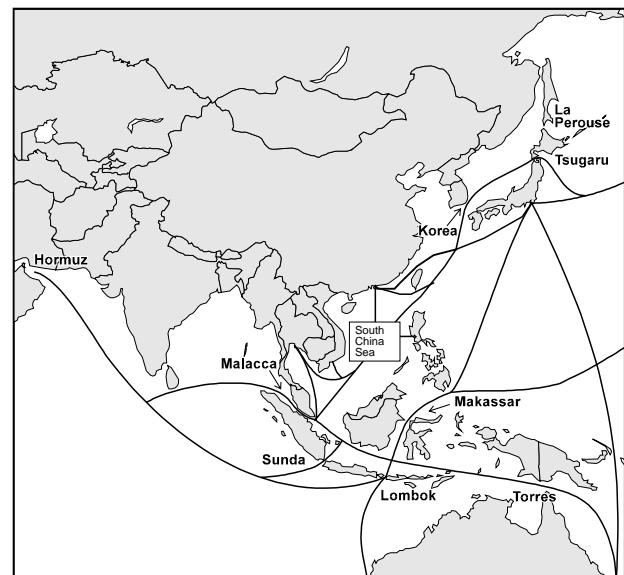
Figure 4-A
Major Commodity Flows to Asia (1998)



Shipping Routes

The geography of Asia dictates that most international trade moves by sea. Interior land transport infrastructure has not been highly developed, although efforts are being pursued on the Malaya Peninsula. As such, shipping is characterized as a blend of dense traffic through straits and along coasts accompanied by long-distance, open-ocean transit. Figure 4-B shows major maritime trade routes linking the trading economies of the region to the rest of the world.

Figure 4-B
Major Trade Routes and Straits



Straits and Chokepoints

The major sea lines of communication (SLOCs) are constricted at several key straits, the most important of which are located in Southeast Asia: the Malacca, Sunda, Lombok, and Makassar straits.² These SLOCs cross the waters of several countries, including Malaysia, Indonesia, and Singapore, with Singapore's port facilities serving as a major node for refueling and transshipment. Two-way trade transiting these SLOCs is important not only for the economies of Southeast Asia but also for businesses in Northeast Asia, Europe, and the United States.

- More than half of the world's annual merchant fleet tonnage passes through the Straits of Malacca, Sunda, and Lombok—most also transit the South China Sea.
- More than 15% of the value of world trade passes through Southeast Asia each year.

Busy but Flawed. The busiest route follows the Strait of Malacca, whose crowded, shallow, and narrow passages are a concern for maritime and environmental safety.

- Tanker traffic through the Strait of Malacca is more than three times that of Suez Canal traffic, and well over five times that of the Panama Canal. Annually, more than 1,100 fully laden supertankers pass eastbound through the strait, many with only a meter or two of clearance between keel and bottom. About 9.5M barrels of oil transit the strait every day.
- The 1.5 miles wide Phillips Channel in the Singapore Strait is a vulnerable bottleneck.
- If the strait were closed, transit time and distance for nearly half of the world's fleet would increase marginally and raise freight rates for a period of time. All excess capacity of the world fleet would be absorbed, with the effect strongest on oil and dry bulk shipments such as coal.

Underinvested Alternatives. The more distant Sunda and Lombok-Makassar routes are superior in terms of depth and width, but lack good navigational aids and infrastructure.

International Cooperation

The free flow of shipping enhances global trade and regional economic development. This regional growth is reinforced by peaceful settlement of disputes and a preference for the rule of law. The threat or use of belligerent military force would be seen as disrupting regional peace, prosperity, and security.

Freedom of Navigation. Disruptions to freedom of navigation would lead to medium-term cost increases due to detours, insurance, and added capacity, while long-term costs would accrue due to damaged trade and security relationships. All countries in the region have obvious economic interests in maintaining freedom of navigation, especially through the Strait of Malacca and the South China Sea. Traffic in the South China Sea is problematic, as sea lanes proceed near coastal areas and near the extensive shallows of the Spratly Islands. The Lombok-Makassar route is important to Australian exporters, who send bulk goods, coal, iron ore, and grain to northern markets via those straits.

International Norms. Territorial seas and their baselines are not clearly published, leading to cross-border disputes and misunderstandings over the application of international law.

- Many countries have not published practical maps showing the baselines from which to draw their territorial seas.
- Countries find it increasingly difficult to manage the resources in their Exclusive Economic Zones (EEZs) as unauthorized foreign fishing fleets test their waters.
- Further cooperation addresses issues of international jurisdiction as well as practical issues of safety, international standards, and equipment interoperability.

Political Posturing. In maritime matters, China's government misapprehends many international norms. Its vague demarcation of territorial seas, its occupation of another country's EEZ, and its misunderstanding of international air safety norms threaten the livelihood of Chinese air and naval ports

along the southern coast of China, including Hainan, Fujian, and Hong Kong.

Tension in the South China Sea

The existence of unresolved maritime and territorial claims in the South China Sea remains a source of potential instability to the region.³ The Philippines, Vietnam, Malaysia, China, and Taiwan have made territorial claims to all or part of the Spratly Islands. Brunei has made maritime claims extending into the disputed area. Both China and Taiwan have made very loose claims covering most of the South China Sea, while official statements refer to island groups in name only. A seventh country, Indonesia, also possesses significant oil and gas fields in the adjacent Natuna Island area.⁴

Agreements. In 1992, ASEAN member countries issued the "ASEAN Declaration on the South China Sea," which called on all parties to "resolve all sovereignty and jurisdictional issues pertaining to the South China Sea by peaceful means." The Declaration also urged all parties to exercise restraint and to cooperate on maritime safety, pollution, search and rescue, and combating piracy and drug trafficking. The United States and China subsequently made statements of support for the ASEAN Declaration.

- In 1995 China occupied Mischief Reef, well within the Philippines' claimed 200 nautical mile EEZ, and officially built "fishing" facilities there.⁵ In response, the Philippines removed nearby Chinese claim markers.

U.S. Policy. The United States has issued statements advocating freedom of navigation, peaceful measures to resolve differences, and the use of international law, especially the 1992 United Nations Convention on the Law of the Sea,⁶ which, with the exception of Taiwan, the six claimants have signed. The United States has taken no position on the legal merits of competing sovereignty claims and supports peaceful resolution of claims and peaceful development of resources. In addition to dependence on freedom of navigation through the South China Sea, U.S.

interests include an open economic region that adheres to principles of international law.

Maritime Piracy

Maritime piracy presents an ongoing threat to commercial shipping in Southeast Asia. The International Chamber of Commerce (ICC) International Maritime Bureau (IMB) Piracy Center in Kuala Lumpur, Malaysia, reported a worldwide increase in piracy of 57% to 469 cases in 2000.⁷ (Piracy incidents are notoriously under-reported.) Asia was the site of 62% of these acts. One fourth of the world total occurred in Indonesia and 16% were in the adjacent Malacca Strait.

- The Asian economic crisis helped to stimulate these thefts. Meanwhile cost-conscious regional navies were less able to patrol their territorial waters.
- Pirates often use extreme brutality: In 1998, 67 people were confirmed killed in attacks on ships.
- By signing the Rome Convention of 1988, a country commits itself to prosecuting pirates, even if the acts originated in another country. Only Japan, China, and Australia have signed.
- Japan recently has been conducting bilateral anti-piracy exercises with India, Singapore, and the Philippines.

Organized Crime. Growing evidence suggests that piracy in the Asia-Pacific region is tied to international criminal organizations.

- Attacks can be planned in one nation and carried out by the nationals of a second country in the waters of a third. Goods can then rapidly be disposed of in a fourth.
- Reports indicate that a highly organized and well-financed criminal syndicate, with connections in Hong Kong, Indonesia, and China, operates a mother ship that targets small vessels with valuable and easily disposable cargoes. Once pirated, it is thought that the ships are sailed under false names to small ports from where the cargoes are sold and the pirates escape.

Merchant Fleets and Facilities

Fleets. Asian countries own 34% and manufacture 72% of the world's merchant

fleet tonnage. Japan owned 13% of world merchant fleet tonnage in 1995, following Greece's 18% share. The United States and Norway followed, at 7% each, and China owned 5%. The four Newly Industrialized Economies (Hong Kong, Singapore, Taiwan, and Korea) owned 12% as a group. Most of today's ships are built in Asia, with Japan taking 35% of the orders for new ships in 1996, Korea 30%, and other Asian countries 7%. Many of the ships in Asia are "flagged out" to countries such as Panama and Liberia, but are owned by other countries, principally Japan, but also Greece, the United States, Great Britain, and Singapore.

World-class Ports. In terms of throughput tonnage, four of the world's five largest ports were located in Asia in 1998: Rotterdam (315 Million Metric Tonnes, or MMT) was followed by Singapore (241 MMT), Shanghai (164MMT), Nagoya (134 MMT), and Hong Kong (128 MMT). In 1998 the world's largest container ports were Singapore (15.1M twenty-foot equivalent units, or TEUs), and Hong Kong (14.9M TEUs).⁸

Upgrades. The region's shipping infrastructure has modernized rapidly. Ports are being expanded in Laem Chabang in Thailand; Bombay, India; Ho Chi Minh City and Cua Lo in Vietnam, Penang and Klang in Malaysia; Indonesia's Batam Island near Singapore; Subic Bay in the Philippines; and at cities along coastal China. China is by far the world's largest manufacturer of dry freight containers and its port facilities are being modernized. Shanghai's container port doubled its capacity in three years, reaching 3.1M TEUs in 1998.

Conclusion

Global economic growth is contingent on the openness of Asia-Pacific trade routes, which are vulnerable to piracy and political tensions over the Spratly Islands.

Endnotes

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- 2 Peele, Reynolds, "The Importance of Maritime Chokepoints," *Parameters*, Summer 1997; Department of Defense, *National Security and the Convention on the Law of the Sea*, January 1996; Noer, John, and David Gregory, *Chokepoints: Maritime Economic Concerns in Southeast Asia*, National Defense University, October 1996; Noer, *Southeast Asian Chokepoints*, December 1996 (www.ndu.edu/ndu/inss/strforum/forum98.html); Noer and Gregory, *Maritime Interests and the Sea Lines of Communication Through the South China Sea: The Value of Trade in Southeast Asia*, Center for Naval Analyses, January 1996; Hamzah Ahmad, *The Straits of Malacca*, 1997; and EIA, *World Oil Transit Chokepoints*, November 2001 (www.eia.doe.gov/emeu/security/choke.html).
- 3 *South China Sea Virtual Library* (www.middlebury.edu/SouthChinaSea/); *Spratlys Forum* (spratlys.homepage.com); Cossa, Ralph, *Security Implications of Conflict in the South China Sea*, Pacific Forum/CSIS, June 1996; Kenny, Henry J., "The South China Sea: A Dangerous Ground," *Naval War College Review*, Summer 1996; Marc Valencia, Jon Van Dyke and Noel Ludwig, *Sharing the Resources of the South China Sea*, May 1997; USCINCPAC Research and Analysis Division, *South China Sea Reference Book*, April 1996.
- 4 Pertamina News (www.pertamina.com/news.html)
- 5 U.S. Department of State, Bureau of Oceans and International Environmental and Scientific Affairs, *Limits in the Seas Number 36: National Claims to Maritime Jurisdiction*, January 11, 1995.
- 6 UN, *Oceans and Law of the Sea* (www.un.org.Depts/los/); and DOD, "National Security and the Convention on the Law of the Sea," July 1994.
- 7 IMB Piracy Centre, www.iccwbo.org/home/commercial_crime/imb/news.asp; and Marc Valencia, "Southeast Asia Piracy Runs Rampant," *Washington Times*, June 4, 2001.
- 8 The TEU measure, based on a container length of twenty-feet, is a basic unit for expressing the capacity for carrying containers upon vessels that are fully cellular, part-container, or roll-on/roll-off. Port of Rotterdam, *Statistieken*, September 1999 (www.port.rotterdam.nl/port/GB/statistieken); Port of Singapore Authority (www.singapore.gov.sg/portterm/portstats.html); Hong Kong Marine Department (www.info.gov.hk/mardep/portstat/portstat.htm).